to yield operating cash flow. Operating cash flow is then divided by the sum of debt service (principal and interest payments)[2] and a pro rata allowance for system-related capital expenditures incurred over a five-year period. So long as the ratio of operating cash flow to the sum of debt service and capital expenditures[3] is 1.20:1 or less, the system would be able to successfully defend the reasonableness of its rates.

The pro rata allowance for capital expenditures requires further explanation. First of all, it is beyond dispute that any regulatory scheme which deprived cable operators of sufficient revenues to reinvest in capital improvements would contravene one of the five fundamental policy goals of Congress in adopting the 1992 Cable Act, to "ensure that cable operators continue to expand, where economically justified, their capacity and the programs offered over their cable systems."[4] However, capital

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discriminate against partnerships vs. corporations. Interest and non-cash expenses including, but not limited to depreciation and amortization, would not be included. Extraordinary gains or losses also would not be included. A reasonable allocation of overhead (joint and common expenses) would be allowed. An allocation based on the percentage of total subscribers would be presumed reasonable.

[2]Projected debt service can be determined for the current fiscal year based on existing debt level and interest rates. This information should be readily available from a loan amortization schedule. Again, the cable operator would be directed to make a reasonable allocation of debt service expenses among groups of systems covered by a given loan or debt instrument.

[3]The sum of debt service and capital expenditures are commonly referred to as "fixed charges." Operating cash flow minus fixed charges is commonly referred to as "free cash flow."

[4]1992 Cable Act, Sec. 2(b)(3).

expenditures related to a particular system may vary widely from year to year. In the event of a major system rebuild, for example, an unusually large amount of capital might be invested in a particular year. If this entire amount were included in the calculation for the current year, a cable operator might be able to justify a sharp increase in rates. To ameliorate this effect, it is proposed that the "capital expenditure" figure be calculated by including 20% of actual system-related capital expenditures for the previous four years[5] and 20% of budgeted capital expenditures for the current year. If for some reason the budgeted capital expenditures for the current year are not fully spent, the pro rata allowance for that year can be adjusted appropriately in the next four years going forward.

Attached as Exhibit A is an example demonstrating how the marginal cash flow computations would be performed. To the extent any of these figures are challenged, the cable operator would be required to submit a statement to the Commission from an outside certified public accounting firm verifying that the amounts have been calculated in accordance with generally accepted accounting principles and that the allocations (e.g., of joint and common expenses) are reasonable. Attached as Exhibit B is a representative form of outside accountant's letter which cable operators should be in a position to provide.

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[5]Historical capital expenditures can be verified through a CPA confirmation letter, as explained infra. In cases where historical data is not available, good faith estimates may be required based on extrapolation of available data.

There are certain safeguards which might be added to the Falcon proposal in order to more fully effectuate Congressional intent. First of all, the Commission certainly does not wish to create a situation which authorizes continual rate increases for the purpose of servicing an excessive debt load. Nor does the Commission desire to create a "safe harbor" to protect those operators which overextended themselves with debt in order to finance acquisitions. Thus, debt service on debt which exceeds six and one half times operating cash flow would be excluded from the calculation of allowable fixed charges. This safeguard will effectively limit the extent to which debt service can be taken into account in the "marginal cash flow" test. The ultimate effect of this approach may be to require refinancing of certain highly leveraged entities. Indeed, the Commission may want to revisit this 6.5 times cash flow debt service cap in the future to ensure that it continues to reflect the realities faced in the cable lending market.

Similarly, the Commission does not wish to allow cable subscription revenues to subsidize debt incurred for non-cable purposes.[6] Accordingly, as to any borrowings incurred after the effective date of these rules, debt service would be allowed to be taken into account for purposes of this test <u>only</u> in proportion to the amount of such borrowings which have actually

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[6]For this same reason, the proposed test focuses on an analysis of revenues from cable operations as well as cable-related expenses. The mixing of revenues and expenses from entities engaged in diversified activities not only runs the risk of cross-subsidization, but also prevents the development of clear and consistent comparisons.

been reinvested in operations or capital improvements relating to the specific system at issue. However, debt service for borrowings incurred <u>prior</u> to the effective date of these rules would be allowed to be deducted from operating cash flow. Otherwise, significant numbers of cable systems would be precluded from servicing existing debt, which could engender massive defaults, and possible disruption or termination of cable service. Clearly, Congress did not intend to put numerous cable operators out of business.

It is simply impossible to reconstruct how every dollar borrowed by a cable television entity has been invested in the past, and the dislocations which such an effort might cause to the financial stability of the cable industry are potentially devastating. Nor can the embedded capital structure of the cable television industry be simply ignored. Rather than embark on such a treacherous course, we believe that the problem of "excessive" preexisting debt can be addressed by prohibiting debt service on debt in excess of 6.5 times operating cash flow from being taken into account in the marginal cash flow test, as explained above. Future uses of borrowed funds can be monitored much more readily, and the test proposed here ensures that such borrowings cannot be used to justify rates falling above the benchmark <u>unless</u> such borrowings have been reinvested into the affected system. Moreover, the proposed test provides the Commission with a mechanism to adjust this test to reflect any changes in capital markets affecting the cable industry, while providing incentives for the cable television industry to reduce leverage in a gradual, realistic fashion.[7]

The "marginal cash flow" ratio of operating cash flow to fixed charges (debt service plus pro rata capital expenditures) of 1.20:1 is a common index incorporated into loan covenants generally encountered in the cable industry.[8] Thus, this is not an arbitrary test, but one which is based on conservative lending parameters in the current cable financing environment. An efficiently operated system is likely to have positive operating cash flow, i.e., revenues will exceed operating expenses. However, a bank is unwilling to lend money even to a system with positive cash flow unless there is a sufficient "margin" of "free" cash flow in order to make principal and interest payments owed on the loan and to fund necessary capital expenditures. Thus, lenders to the cable television industry typically include, in addition to other financial covenants designed to ensure repayment of loans within an 8 to 9 year time period, a covenant requiring that the ratio of operating cash flow to allowable fixed charges (as defined above) be maintained at an average level of at least 1.20:1 to ensure that the operator will have sufficient revenue to pay operating expenses, service debt, and comply with capital expenditure requirements.

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[7]This is consistent with the approach which was taken by banks in 1990 and 1991 to allow an adequate transition period for cable television borrowers to adjust to the "highly leveraged transaction" regulations that were introduced in 1990.

[8]See the letters from certain major lenders to the cable television industry, and from certain investment banks, attached hereto as Exhibit C.

Indeed, loan agreements commonly in place in the cable industry today often provide that, if a cable operator fails to satisfy a 1.20:1 marginal cash flow ratio or other similar covenants, the borrower is deemed to be in <u>default</u>. While the bank would typically be entitled to commence foreclosure proceedings in the event of a default, such draconian measures previously have been rarely instituted in practice. Rather, based on historical experiences, at a very minimum the bank would typically demand a restructuring fee, a <u>higher</u> interest rate (since the loan has been shown to be more risky), and in all likelihood will place tight controls on the freedom of the operator to make capital expenditures. Thus, if the Commission fails to allow cable operators to maintain a reasonable cash flow margin, the result is likely to be even <u>greater</u> amounts of cable revenues diverted away from system improvements or programming innovations to satisfy these higher interest rates, and to limit the ability of cable operators to make planned capital expenditures. The foregoing results would clearly disserve the public interest and could not have been intended by Congress. The marginal cash flow test provides a "fail safe" mechanism which allows the Commission, the cable operator and the complainant or the franchising authority to avoid becoming embroiled in potentially protracted cost of service hearings, while simultaneously guarding against truly unreasonable rates without risking the anti-consumer side effects described above.[9]

5227

[9]The marginal cash flow test is based on <u>all</u> cable television revenue derived by the system, including revenue from unregulated services offered on a per channel or per program basis. While such an approach is necessary to avoid complex allocations of items such as expenses and debt service, it should nevertheless be noted that this approach places even <u>tighter</u> reins on overall cable system cash flow than mandated by Congress. <u>See</u> Sec. 623(c)(2)(D) of the Act.

EXHIBIT A

EXAMPLE OF MARGINAL CASH FLOW COMPUTATION
($IN 000'S)

	Example A	Example B	Example C
I. CALCULATE OPERATING CASH FLOW			
Revenues	$ 5,661	$ 3,056	$12,875
Minus: Operating Expenses	2,580	1,323	5,839
Equals: Operating Cash Flow	$ 3,081	$ 1,733	$ 7,036
II. CALCULATE ALLOWABLE DEBT SERVICE			
Operating Cash Flow	$ 3,081	$ 1,733	$ 7,036
Leverage Multiple	X 6.5	X 6.5	X 6.5
Maximum Base for Allowable Debt Service	$20,027	$11,265	$45,734
Actual Total Debt Outstanding	22,505	14,770	40,666
Excess Debt Outstanding	$ 2,478	$ 3,505	$ -0-
Excess Debt %	12.4%	31.1%	N/A
Total Actual Debt Service (Principal & Interest)	$ 2,146	$ 1,320	$ 3,641
Adjustment	87.6%	68.9%	N/A
Total Allowable Debt Service	$ 1,880	$ 909	$ 3,641
III. CALCULATE ALLOWABLE FIXED CHARGES			
Total Allowable Debt Service (Section II above)	$ 1,880	$ 909	$ 3,641
Plus: Capital Expenditures	871	516	1,230
Equals: Allowable Fixed Charges	$ 2,751	$ 1,425	$ 4,871
IV. DIVIDE OPERATING CASH FLOW BY ALLOWABLE FIXED CHARGES			
Ratio of Operating Cash Flow to Allowable Fixed Charges	1.12	1.22	1.44

Example A passes the marginal cash flow test, Examples B and C fail the test.

DEFINITIONS

Revenues: All revenues derived by the system from cable television operations during the most recently completed fiscal year. For example, revenues would include, but would not be limited to, revenues derived from recurring cable service fees, second sets, installations, remote controls, cable equipment rentals, and advertising. This gross revenue figure should be readily ascertainable. In many cases, this is the base figure reported to franchising authorities for the purpose of calculating franchise fees.

Operating Expenses: Expenses incurred by the system during the 12-month period described above. Taxes and other cash expenses would be included. Partnerships, which do not themselves pay income taxes, would be allowed to factor the pro forma effect for taxes into the expense calculation so as not to unfairly discriminate against partnerships versus corporations. Interest and non-cash expenses including, but not limited to, depreciation and amortization, would not be included. Extraordinary gains or losses also would not be included. A reasonable allocation of overhead (joint and common expenses) would be allowed. An allocation based on percentage of total subscribers would be presumed reasonable.

Debt Service: Projected debt service can be determined for the current fiscal year based on existing debt level and interest rates. This information should be readily available from a loan amortization schedule. Again, the cable operator would be directed to make a reasonable allocation of debt service expenses among groups of systems covered by a given loan or debt instrument.

Capital Expenditures: This amount is calculated by including 20% of actual system-related capital expenditures for the previous four years and 20% of budgeted capital expenditures for the current year. Historical capital expenditures can be verified through a CPA confirmation letter. In cases where historical data for all four years is not available, good faith estimates may be required based on extrapolation of available data. If for some reason budgeted capital expenditures for the current year are not fully spent, the pro rata allowance for that year can be adjusted appropriately in the next four years going forward.

EXHIBIT B

Sample Auditor Letter To
Verify Figures Used For
Marginal Cash Flow Computations

BDO SEIDMAN

1900 Avenue of the Stars, 11th Floor
Los Angeles, California 90067
Telephone: (310) 557-0300
Telecopier: (310) 557-1777

Accountants and Consultants

March 5, 1993

Mr. Michael K. Menerey
Falcon Cable TV
10900 Wilshire Boulevard
Los Angeles, CA 90024

Dear Mr. Menerey:

You requested that we review the accounting and auditing literature to determine the extent of comfort that BDO Seidman can render in connection with issuing a report on schedule of marginal cash flow computation. I understand that Falcon is proposing that the marginal cash flow computation be defined and included in the regulations, which are soon to be issued by the Federal Communications Commission ("FCC") in response to the 1992 Cable Act.

Statement on Auditing Standards No. 62 "Special Reports" prescribes the form and content of auditors' reports issued in connection with "compliance with aspects of contractual agreements or regulatory requirements related to audited financial statements".

Attached to this letter is the type of report which could be rendered in connection with the computation of marginal cash flow (as defined) for submission to the FCC to comply with the FCC's regulations.

If you have any questions or comments, please contact me.

Sincerely,

Martin Paravato

Martin G. Paravato,
Partner

/bsl

Enclosures

INTERNATIONALLY BDO BINDER

BDO SEIDMAN

1900 Avenue of the Stars, 11th Floor
Los Angeles, California 90067
Telephone: (310) 557-0300
Telecopier: (310) 557-1777

Accountants and Consultants

INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF MARGINAL CASH FLOW

Falcon Cable TV
Los Angeles, California

We have audited the accompanying schedules of marginal cash flow (as defined in the regulations issued by the FCC in connection with the 1992 Cable Act) of Falcon Cable (name of system) for the year ended December 31, 1993. The schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on these schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules of marginal cash flow is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of marginal cash flow. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the schedule of marginal cash flow referred to above present fairly, in all material respects, the marginal cash flow and increase in reserves for defined expenditures of Falcon Cable (name of system) for the year ended December 31, 1993, as defined in the regulations referred to in the first paragraph.

This report is intended solely for the information and use of the management of Falcon Cable (name of system) and should not be used for any other purpose.

BDO SEIDMAN

EXHIBIT C

Letters From Lenders And Investment Banks

BANK OF BOSTON

March 5, 1993

Mr. Michael K. Menerey
Chief Financial Officer
Falcon Cable TV
474 S. Raymond Ave. Suite 200
Pasadena, CA 91105

Dear Mike:

You have requested a response from the bank regarding generally accepted lending parameters for our cable television debt portfolio, specifically with regard to the total debt to cash flow ratio and fixed charge coverage ratio. As you know, Bank of Boston is a leader in cable television finance with $1.2 billion in commitments to the industry, placing us as a top-5 lender to cable television today. Our cable portfolio is comprised of 41 credit facilities to individual cable operators spread across the United States.

We understand that you have proposed to the FCC an alternative of evaluating cable service rates that incorporates certain traditional credit ratios, namely total debt to cash flow and a fixed charge coverage test. We also understand that your proposal is intended to provide the FCC with a simple, expeditious mechanism for evaluating complaints lodged against cable operators whose rates might fall outside the FCC's benchmarks.

It is important to us that the industry continue to have access to the capital markets and that their existing and future free cash flow be sufficient to cover, with a reasonable cushion, debt service and capital expenditure requirements. The credit standards in this regard are more conservative today than the standards banks applied just a few years ago. Today, the bank market would typically demand maximum total debt to operating cash flow no greater than 6.5x. Bondholders and other institutional lenders will tolerate somewhat higher debt to cash flow ratios than the bank market. Fixed charge coverage is defined as Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), less cash taxes, divided by the sum of interest, mandatory principal payments on total debt and capital expenditures. The bank market today needs to see fixed charge coverage averaging 125% or greater over the first five years of a bank financing.

Please let me know if there is anything else I can provide.

Sincerely,

James C. Lewis

James C. Lewis
Division Executive
Media & Communications

NationsBank
P. O. Box 831000
Dallas, TX 75283-1000
Tel 214 508-6282

NationsBank

March 5, 1993

Mr. Michael K. Menerey
Chief Financial Officer
Falcon Cable TV
474 S. Raymond Ave., Suite 200
Pasadena, CA 91105

Dear Mike:

You have requested a response from the bank regarding generally accepted lending parameters for our cable television debt portfolio, specifically with regard to the total debt to cash flow ratio and fixed charge coverage ratio. As you know, NationsBank is a leader in cable television finance with approximately $1.6 billion in commitments to the industry, placing us as the #1 domestic and #3 worldwide lender to cable television today. Our cable portfolio is comprised of 58 credit facilities to individual cable operators spread across the United States.

We understand that you have proposed to the FCC an alternative of evaluating cable service rates that incorporates certain traditional credit ratios, namely total debt to cash flow and a fixed charge coverage test. We also understand that your proposal is intended to provide the FCC with a simple, expeditious mechanism for evaluating complaints lodged against cable operators whose rates might fall outside the FCC's benchmarks.

It is important to us that the industry continue to have access to the capital markets and that their existing and future free cash flow be sufficient to cover, with a reasonable cushion, debt service and capital expenditure requirements. The credit standards in this regard are more conservative today than the standards banks applied just a few years ago. Today, the bank market would typically demand maximum total debt to operating cash flow no greater than 6.5x. Bondholders and other institutional lenders will tolerate somewhat higher debt to cash flow ratios than the bank market. Fixed charge coverage is defined as Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), less cash taxes, divided by the sum of interest, mandatory principal payments on total debt and capital expenditures. In general, the bank market today needs to see fixed charge coverage averaging 125% or greater over the first five years of a bank financing.

Please let me know if there is anything else I can provide.

Sincerely,

Douglas S. Stuart
Vice President
(214) 508-0922

g:\ww\tv\d8s\falcon.ltr

FIRST CHICAGO
The First National Bank of Chicago

Western Communications Division
One First National Plaza
Mail Suite 0083
Chicago, Illinois 60670 - 0083
Telephone: (312) 732 - 3719
FAX: (312) 732 -7727

March 8, 1993

Stephen Martin
Vice President / Division Head

Mr. Michael K. Menerey
Chief Financial Officer
Falcon Cable TV
474 S. Raymond Avenue
Suite 100
Pasadena, California 91105

Dear Mike:

You have requested a response from First Chicago regarding our cable television lending parameters, specifically with regard to the total debt to cash flow ratio and fixed charge coverage ratio. As you know, The First National Bank of Chicago has been a leader in cable television finance for over 20 years, with more than $1 billion in commitments to the industry, placing us as one of the top lenders to cable television today. Our cable portfolio is comprised of more than 80 individual credit facilities to cable operators spread across the United States.

We understand that you have proposed to the FCC an alternative of evaluating cable service rates that incorporates certain traditional credit ratios, specifically total debt to cash flow and a fixed charge coverage test. We also understand that your proposal is intended to provide the FCC with a simple, expeditious mechanism for evaluating complaints lodged against cable operators whose rates might fall outside the FCC's benchmarks.

It is important to us that the industry continue to have access to the capital markets and that their existing and future operating cash flow be sufficient to cover, with a reasonable cushion, taxes, debt service and capital expenditure requirements. The credit standards in this regard are more conservative today than the standards banks applied just a few years ago. Today, the bank market would typically allow, for new deals, maximum total debt to operating cash flow of no greater than 6.5x. It is our experience that bondholders and other institutional lenders will tolerate somewhat higher debt to cash flow ratios than the bank market. Because of this and the fact that the bank standard of 6.5x is tighter than just a few years ago, many existing cable TV companies have, today, total debt to operating cash flow ratios which exceed 6.5 times. This is an important fact to realize when viewing the appropriate level of debt for determining the interest component in a fixed charge test. Fixed charge coverage is defined as Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), less cash taxes, divided by the sum of interest, mandatory principal payments on total debt and capital expenditures. The bank market today generally expects fixed charge coverage to average 125% or greater over the first five years of a bank financing.

Please let me know if there is anything else I can provide.

Sincerely,

SM:bhp

THE BANK OF NEW YORK
NEW YORK'S FIRST BANK – FOUNDED 1784 BY ALEXANDER HAMILTON

ONE WALL STREET, NEW YORK, N.Y. 10286

March 8, 1993

Mr. Michael K. Menerey
Chief Financial Officer
Falcon Cable TV
474 S. Raymond Avenue, Suite 200
Pasadena, CA 91105

Dear Mike:

You have requested a response from the bank regarding generally accepted lending parameters for our cable television debt portfolio. As you know, The Bank of New York is a leader in cable television finance with $1,350MM in commitments to the industry, placing us as one of the top three lenders to cable television today. Our cable portfolio is comprised of 42 credit facilities to individual cable operators spread across the United States.

We understand that you have proposed to the FCC an alternative of evaluating cable service rates that incorporates certain traditional credit ratios. We also understand that your proposal is intended to provide the FCC with a simple, expeditious mechanism for evaluating complaints lodged against cable operators whose rates might fall outside the FCC's benchmarks.

It is important to us that the industry continue to have access to the capital markets and that their existing and future free cash flow be sufficient to cover, with a reasonable cushion, debt service and capital expenditure requirements. The credit standards in this regard are more conservative today then the standards bank applied just a few years ago. Today, the bank market would typically demand maximum total debt to operating cash flow no greater than 6.5x. Bondholders and other institutional lenders will tolerate somewhat higher debt to cash flow ratios than the bank market. Fixed charge coverage is defined as Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), less cash taxes, divided by the sum of interest, mandatory principal payments on total debt and capital expenditures. The bank market today needs to see adequate fixed charge over the life of a financing.

Please let me know if there is anything else I can provide.

Sincerely,

Brendan T. Nedzi
Vice President

BANKCAL

THE BANK OF CALIFORNIA

VIA FEDERAL EXPRESS

March 8, 1993

Mr. Michael K. Menerey
Chief Financial Officer
Falcon Cable TV
474 S. Raymond Ave., Suite 200
Pasadena, CA 91105

Dear Mike:

You have requested a response from the bank regarding general lending parameters for our cable TV portfolio, specifically with regard to the Total Debt to Cash Flow ratio and the Fixed Charge Coverage ratio. As you know, The Bank of California, N.A. is a leader in cable TV finance with $430 million in commitments to the industry, placing us among the top 30 lenders to the industry. Our cable TV portfolio is comprised of 30 credit facilities to individual cable TV operators spread across the United States.

We understand that you have proposed to the FCC an alternative of evaluating cable TV service rates that incorporates certain traditional credit ratios, namely Total Debt to Cash Flow and Fixed Charge Coverage ratios. We also understand that your proposal is intended to provide the FCC with a simple, expeditious mechanism for evaluating complaints lodged against cable TV operators whose rates might fall outside the FCC's benchmarks. Further, it is important to us that the industry continue to have access to the capital markets and that their existing and future free cash flow be sufficient to meet, with cushion, debt service and all other necessary expenses including capital expenditures. We also feel it is important that cable TV operators have the ability to adjust their service rates to reflect the cost of doing business, especially if suppliers to the industry increase the costs of necessary goods and services. Having stated the foregoing, the following is provided.

With regard to the two aforementioned financial ratios, in general we typically seek new credit relationships where Total Debt to Cash Flow is below 6.50x and Fixed Charge Coverage is above 1.25x. We currently have transactions both above and below these parameters due to other mitigating factors which should stress the point that these are general parameters. Further, considerations other than these two ratios are factored into the credit decision as well.

Also important with regard to these two financial ratio tests are their definitions. We typically seek the most conservative definition of all variables. Fixed Charges are normally defined as the sum of Taxes, Interest, Principal Repayments, Capital Expenditures, Partner Distributions/Shareholder Dividends. Cash flow is normally defined as Net Income plus non-cash charges and Interest Expense. Total Debt is normally defined as all funded debt including all subordinated debt regardless of the strength of the subordination terms of specific debt agreements. As you know, these definitions can take several forms through the negotiating process to meet specific circumstances of the credit transaction.

I hope this is helpful to you. Please let me know if there is anything else I can provide.

Sincerely,

Stephen H. Smith

Stephen H. Smith
Assistant Vice President
Communications Industries

PNC Bank, N.A.
Broad & Chestnut Streets
P.O. Box 7648
Philadelphia, PA 19101
215 585 6014 Tel

Scott C. Meves
Vice President

March 8, 1993

PNCBANK

Mr. Michael K. Menerey
Chief Financial Officer
Falcon Cable TV
474 S. Raymond Ave., Suite 200
Pasadena, CA 91105

Dear Mike:

As a follow up to our discussions, I am pleased to provide information regarding some of the current lending parameters which PNC Bank has been utilizing for our cable television portfolio. I understand that the information is being solicited in order to be included as supporting information for a proposal being made to the FCC regarding rate justification.

Specifically I understand that Falcon has made a proposal to the FCC which is intended to provide a simple, expeditious mechanism for evaluating complaints lodged against cable operators whose rates might fall outside the FCC's benchmarks. This proposal includes utilizing credit ratios, particularly a fixed charge coverage test and a total leverage test.

In regard to both the fixed charge ratio and the ratio of total debt to cash flow, it is fair to say that PNC Bank is following more conservative lending parameters than were being applied two or three years ago. It is also fair to say that despite the more conservative parameters, PNC Bank continues to be a very active supporter of this industry and continues to provide financing for its capital requirements. A typical bank financing in today's market would limit the ratio of total debt to cash flow to no more than 6.5 times. As far as the fixed charge ratio is concerned most credits tend to require a ratio of approximately 115%-125%. Fixed charge coverage is defined as Earnings Before Interest, Taxes, Depreciation and Amortization, less cash taxes, divided by the sum of interest, mandatory principal payments on total debt and capital expenditures.

Mike, as you are aware, PNC Bank, N.A. is a leading institution in cable television finance with $850 million in commitments to the industry, placing us among the 15 largest bank lenders to cable television today.

Sincerely,

Scott C. Meves

Scott C. Meves
Vice President
Communications Lending

MORGAN STANLEY

MORGAN STANLEY & CO.
INCORPORATED
1251 AVENUE OF THE AMERICAS
NEW YORK, NEW YORK 10020
(212) 703-4000

March 8, 1993

Mr. Michael K. Menerey
Chief Financial Officer
Falcon Cable TV
474 S. Raymond Ave. Suite 200
Pasadena, CA 91105

Dear Mike:

You have a requested a response from Morgan Stanley regarding generally accepted financing parameters for cable companies in the public debt markets. As you know, Morgan Stanley is a leader in cable television financings, managing more than $3.4 billion of cable debt in the public market since 1991.

We understand that you have proposed to the FCC an alternative of evaluating cable service rates that incorporates certain traditional credit ratios, namely total debt to cash flow and a fixed charge coverage test. We also understand that your proposal is intended to provide the FCC with a simple, expeditious mechanism for evaluating complaints lodged against cable operators whose rates might fall outside the FCC's benchmarks.

It is important to us that the cable industry continue to have access to the capital markets and that their existing and future free cash flow be sufficient to cover, with a reasonable cushion, debt service and capital expenditure requirements.

The credit standards applied in the public markets are generally less conservative than the standards applied by banks in today's market. The credit standard which is the primary focus of the public markets is the Debt to (running rate) Operating Cash Flow ("Debt/OCF") ratio. Today, public cable financings are frequently completed by cable companies with Debt/OCF ratios in excess of the 6.5x standard applied by the banks. In the last two weeks, for example, several financings were completed by cable companies with Debt/OCF in excess of 7.0x (including a transaction we recently completed for Cablevision Industries which has a Debt/OCF ratio of 8.0x). Attached as Exhibit A is a list of cable companies who are issuers of public debt and their corresponding Debt/OCF ratio.

Please let me know if there is anything else I can provide.

Sincerely,

Jeffrey A. Sine

Jeffrey A. Sine
Principal

EXHIBIT A

COMPANY	TOTAL DEBT/OCF
Adelphia Communications	8.4x
Cablevision Industries	8.0
Cablevision Systems	7.5
Century Communications	7.0
Jones Intercable	6.9
Comcast	6.1
Continental Cablevision	5.9
Tele-Communications, Inc.	5.5

LAZARD FRÈRES & CO.
ONE ROCKEFELLER PLAZA
NEW YORK, N.Y. 10020

TELEPHONE (212) 632-6000
FACSIMILE (212) 632-6060

NEW YORK

March 9, 1993

Mr. Michael K. Menerey
Chief Financial Officer
Falcon Cable TV
474 S. Raymond Ave. Suite 200
Pasadena, CA 91105

Dear Mike:

You have requested our views regarding generally accepted lending parameters for cable television companies, specifically with regard to the ratio of total debt to cash flow. As you know, Lazard Frères is a leader in cable television finance, having been a manager in $1.2 billion in subordinated debt offerings for cable television issuers since 1992.

It is important to us that the industry continue to have access to the capital markets and that their existing and future free cash flow be sufficient to cover, with a reasonable cushion, debt service and capital expenditure requirements. The credit standards in this regard are more conservative today than the standards applied just a few years ago. Today, the bank market would typically demand maximum total debt to operating cash flow no greater than 6.5x. Bondholders and other institutional lenders tolerate somewhat higher debt to cash flow ratios than the bank market, and it is not uncommon for major cable television operators to be capitalized with total debt to cash flow of greater than 7.0x.

Please let us know if there is anything else we can provide.

Sincerely,

Lazard Frères & Co.